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July 23, 2002

AZ CORP COMMISSION
DOCUMENT CONTROL

VIA FAX

Mr. Tim Sabo
Legal Counsel
Arizona Corporation Commission
1200 West Washington
Phoenix, AZ 85007

Arizona Corporation Commission

DOCKETED

JUL 23 2002

DOCKETED BY

CM

Re: XO Supplemental Application for Expedited Approval of Transfer
Docket No. T-03775A-02-0389 and T-030601A-02-0389

Dear Mr. Sabo:

I am writing to clarify one aspect of the transaction described in the XO Arizona, Inc. Supplemental Application for Expedited Approval of the transfer of ownership and control of XO Communications, Inc. and its operating subsidiaries. The transaction for which approval is sought involves the sale of stock to new investors and will not itself extend, modify, or change the existing loan guaranty made by XO Arizona Inc. ("XO Arizona") on behalf of XO Communications ("XO Communications"). The XO Arizona assets are currently pledged to secure XO Arizona's guarantee of loans of XO Communications. The Arizona Corporation Commission approved this guaranty and pledge on June 9, 2000 in Docket T-03601A-00-0021.

One condition for the closing of the stock transaction is a restructuring of XO Communications' finances and equity. As part of that restructuring, XO Communications has tentatively agreed with the bank lenders to amend the existing credit agreement for which the XO Arizona loan guaranty was given to modify some of the financial covenants and to extend the repayment period. The loan guaranty by XO Arizona will not change in any practical way as a result of the stock acquisition described in the Supplemental Application for Expedited Approval. The guarantee will be secured by precisely the same assets and will inure to benefit of the same beneficiary (XO Communications). The loan modifications that are proposed in connection with the stock acquisition do include elimination of the \$125 million cap on any one affiliate's guarantee. However, because XO Arizona's assets are valued at less than 40% of that total cap amount, that revision should have no practical affect on XO Arizona. All of its assets are subject to the guarantee and pledge under the current loan arrangements and this will continue to be the case under the modified loan arrangements. For these reasons, this change does not enlarge XO Arizona's basic obligations as a guarantor and pledgor as a practical matter. Moreover, our client believes that consummation of the contemplated transaction will immensely improve XO Communication's overall financial condition, which should in turn benefit XO Arizona.

Mr. Tim Sabo, Legal Counsel
Arizona Corporation Commission
July 23, 2002
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If you have any questions regarding this information, or the transaction in general, please call me.

Very truly yours,



Joan S. Burke

JSB:eb
cc: Docket No. T-03601A-02-0389
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